

Investment Committee Memorandum
Board of Regents, State of Iowa

Subject: Modifications in Banking and Broker Relationships

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Date Submitted: September 1, 2004

Recommended Actions:

Recommend the Board approve:

- An increase in the maximum deposit for Iowa State University at Bankers Trust – Des Moines from \$75 million to \$100 million.
 - The list of financial institutions, subject to the limitations specified as to purpose and maximum amount, as detailed on pages 4 and 5.
 - The list of brokers as listed on page 5.
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Executive Summary:

Iowa Code §12C.2 requires the Board of Regents to approve financial institutions that serve as depositories.

Regent Policy Manual requires that changes in banking and broker relationships be reviewed by the Investment Committee and approved by the Board before Regent institutions are permitted to use their services.

Banking Changes A summary of the proposed changes include:

The University of Iowa requests the removal of Bank One – Chicago from the list since the Board approved the transfer of the trust fund for Human Biology Research Facility (HBRF) bonds to the Wells Fargo – Minnesota Bank in May 2003.

Iowa State University requested an increase in the maximum deposit at Bankers Trust – Des Moines:

<u>From:</u> \$75,000,000	<u>To:</u> \$100,000,000
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The University of Northern Iowa reported the following name changes:

<u>From:</u> Union Planters Bank – Cedar Falls Bank of New York (St. Louis)	<u>To:</u> Union Planters Bank Iowa – Cedar Falls (DDA Account) BNY Midwest Trust Company (Chicago)
Union Planters Bank – Gorville, Illinois	Union Planters Bank – Taylorville, Illinois

Broker Revisions	<p>The current list of approved brokers includes six brokerage firms.</p> <p>The universities have reported name changes for four of the approved general brokerage services as shown below:</p>	
	<u>From:</u>	<u>To:</u>
	Dain Rauscher	RBC Dain Rauscher
	Salomon Smith Barney	Smith Barney, a division of Citigroup Global Markets
	US Bancorp Piper Jaffray, Inc.	Piper Jaffray Companies
	Wells Fargo Brokerage Services	Wells Fargo Brokerage Services LLC

Background and Analysis:

Banking Requirements	<p><u>Iowa Code</u> §12C.2 requires Board approval of financial institutions as depositories. Approval must be entered by written resolution or order into the Board's minutes, distinctly naming the approved depository, as well as specifying the maximum amount which may be kept on deposit.</p> <p>Depositories must be located within the state of Iowa, except as prescribed by law. The Regent institutions use banks outside the state for accounts established pursuant to bond issuances, as allowed by law, and controlled disbursement accounts. Controlled disbursement accounts carry negative or very small positive balances until the universities transfer funds from Iowa banks to bring the account balances back to zero.</p> <p><u>Iowa Code</u> §12B.10C requires agents for public funds custodial agreements to obtain security or documentation of ownership or title evidencing public funds investments. The Regent institutions maintain custodial agreements as required by law. Custodial agreements do not apply to public funds invested under provisions of bond resolutions or indentures, notes, certificates, warrants, or other evidences of indebtedness.</p> <p>These requirements are incorporated into the <u>Regent Policy Manual</u> §7.07(J), which states that proposed changes to banking relationships shall be reviewed by the Investment Committee and approved by the Board.</p>
Banking Relationships Process	<p>Each Regent institution periodically reviews its banking relationship needs. Some banking relationships, such as primary relationships, are bid on a competitive basis. Other banking relationships are maintained and analyzed on an "as needed" basis.</p> <p>The Board last approved the complete listing of financial institutions at its September 2002 meeting. In May 2003, the Board authorized the University of Iowa to transfer the trust fund for the Human Biology Research Facility (HBRF) bonds from Bank One – Chicago to Wells Fargo – Minnesota. The University requests that Bank One – Chicago be removed from the list.</p>

A temporary revision for the University of Iowa was granted in December of 2003 to effectively carry out certain banking activities associated with the University of Iowa bowl game in Florida.

Requirements -
Brokers

The Board's investment policy as stated in Section 7.03 (I.3) of the Regent Policy Manual requires that brokerage firms be approved by the Investment Committee and the Board before Regent institutions are permitted to use their services.

The institutions shall have the discretion to execute transactions with approved brokerage firms. Selection of brokerage firms shall be based on the quality of execution rendered, the value of research information provided, the financial health of the brokerage firm, the general business integrity of the firm, the cost of services and the overall efficiency in transacting business. After a brokerage firm is approved by the Board, the Investment Committee shall be notified if any of the above factors change and the institution no longer wants to execute transactions through that firm.

Once a brokerage firm is approved, the broker is approved for all Regent institutions. Board approval does not compel, but rather, permits an institution to do business with a brokerage firm.

**Board of Regents, State of Iowa
Financial Institutions
September 1, 2004**

	Maximum Deposit	Location of Institution	
<u>UNIVERSITY OF IOWA</u>		<u>Iowa</u>	<u>Outside Iowa</u>
Wells Fargo Bank Iowa – Des Moines (DDA) ¹	\$75,000,000	X	
US Bank Iowa – Cedar Rapids (DDA)	20,000,000	X	
US Bank – Iowa City (DDA)	20,000,000	X	
Iowa State Bank and Trust – Iowa City (DDA) ²	20,000,000	X	
Wells Fargo Bank Iowa – Atlantic ³		X	
Bank One – Chicago⁴			X
Wells Fargo Bank – Minnesota ⁵⁴			X
Wells Fargo Bank Ohio – Van Wert ⁶⁵			X

¹ Includes various accounts required for bond issues, lockbox, and trust accounts for bond issues.

² Includes trust fund for Auditorium Defeasance bond issue.

³ Controlled disbursement account.

⁴ ~~Trust fund for Human Biology Research Facility (HBRF) bonds.~~

⁵⁴ ~~Trust fund for Human Biology Research Facility (HBRF) bonds and U~~Used for paying agent required by various bond resolutions, trust accounts for fund managers, and custodial accounts for University investments.

⁶⁵ Controlled disbursement.

	Maximum <u>Deposit</u>	Location of <u>Institution</u>	
<u>IOWA STATE UNIVERSITY</u>		<u>Iowa</u>	<u>Outside Iowa</u>
Bankers Trust – Des Moines ⁷	\$75,000,000 <u>\$100,000,000</u>	X	
Wells Fargo Bank – Des Moines ⁸	20,000,000	X	
First National Bank – Ames	1,000,000	X	
US Bank – Ames	1,000,000	X	
Chase Manhattan Bank Delaware ⁹			X
Wells Fargo Bank – Minnesota ¹⁰			X
Bank of America – Des Moines ¹¹		X	

⁷ Concentration, lockbox, and controlled disbursement accounts.

⁸ Paying agent.

⁹ Controlled disbursement.

¹⁰ Paying agent.

¹¹ Credit Card Processor.

	Maximum Deposit	Location of Institution	
		<u>Iowa</u>	Outside <u>Iowa</u>
<u>UNIVERSITY OF NORTHERN IOWA</u>			
Wells Fargo Bank Iowa – Cedar Falls (DDA Account) ¹²	\$20,000,000	X	
Union Planters Bank <u>Iowa</u> – Cedar Falls <u>(DDA Account)</u> ¹³	20,000,000	X	
Bank of New York (St. Louis) <u>BNY Midwest Trust Company (Chicago)</u> ¹⁴			X
Wells Fargo Bank – Minnesota ¹⁵			X
Union Planters Bank – Goreville <u>Taylorville</u> , Illinois ¹⁶			X

	Maximum Deposit	Location of Institution	
		<u>Iowa</u>	Outside <u>Iowa</u>
<u>IOWA SCHOOL FOR THE DEAF</u>			
US Bank – Council Bluffs	\$3,000,000	X	
Wells Fargo Bank – Des Moines ¹⁷		X	

¹² Includes various accounts required by bond issues.

¹³ Includes various accounts required by bond issues.

¹⁴ Paying agent.

¹⁵ Used for trust accounts for fund managers and custodial accounts for University investments.

¹⁶ Controlled disbursement.

¹⁷ Investment paying agent.

	Maximum Deposit	Location of Institution	
		<u>Iowa</u>	Outside <u>Iowa</u>
<u>IOWA BRAILLE AND SIGHT SAVING SCHOOL</u>			
Union Planters Bank	\$1,000,000	X	
US Bank – Cedar Rapids	750,000	X	
Farmers Savings Bank and Trust – Vinton	200,000	X	

**Board of Regents, State of Iowa
Brokerage Firms
September 1, 2004**

A. G. Edwards & Sons, Inc.

RBC Dain Rauscher

Kirkpatrick, Pettis, Smith, and Polian, Inc.

~~Salomon~~ Smith Barney, a division of Citigroup Global Markets

~~US Bancorp~~ Piper Jaffray, ~~Inc.~~ Companies

Wells Fargo Brokerage Services LLC